

AMENDED IN SENATE APRIL 17, 2002

**SENATE BILL**

**No. 1662**

**Introduced by Senator Peace**

February 21, 2002

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~~An act to add and repeal Section 17041.1 of the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy. An act relating to taxation.~~

LEGISLATIVE COUNSEL'S DIGEST

SB 1662, as amended, Peace. ~~Income taxes: capital gains: rate Taxation.~~

*The existing tax laws provide for revenue sources for the state that include the Personal Income Tax Law, the Bank and Corporation Tax Law, the Sales and Use Tax Law, and property tax laws.*

*This bill would express the intent of the Legislature to provide a more stable revenue structure by reducing the personal income tax rate on capital gains, broadening the state and local sales and use tax base, reducing state and local sales and use tax rates, and providing that for purposes of property tax law, a change of ownership for nonresidential property shall result in reassessment when a cumulative 50 percent of ownership shares change ownership.*

~~The Personal Income Tax Law provides that gain or loss upon the disposition of a capital asset is determined by reference to the specified adjusted basis of that asset.~~

~~This bill would, until January 1, 2004, provide that any gain from the sale or exchange of a capital asset, as defined, that is held for more than one year shall be subject to specified reduced rates of tax.~~

~~This bill would take effect immediately as a tax levy.~~

Vote: majority. Appropriation: no. Fiscal committee: ~~yes~~ *no*.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

1     ~~SECTION 1.—Section 17041.1 is added to the Revenue and~~  
2     ~~Taxation Code, to read:~~

3     ~~17041.1.—(a) Notwithstanding Section 17041, for taxable~~  
4     ~~years beginning on or after January 1, 2002, and before January 1,~~  
5     ~~2004, any gain during the taxable year from the sale or exchange~~  
6     ~~of a capital asset, as defined by Section 1221 of the Internal~~  
7     ~~Revenue Code, that is held for more than one year shall not be~~  
8     ~~subject to tax under Section 17041 but, instead, shall be subject to~~  
9     ~~the tax determined under subdivision (b).~~

10    ~~(b) (1) If the taxable income is not over the eighteen thousand~~  
11    ~~nine hundred fifty dollar (\$18,950) amount specified in~~  
12    ~~subdivision (a) of Section 17041, as adjusted for inflation pursuant~~  
13    ~~to subdivision (h) of Section 17041, the tax on capital gains is~~  
14    ~~2.325 percent, and 4.65 percent if taxable income is over that~~  
15    ~~amount.~~

16    ~~(2) If the taxable income is not over the twenty-seven thousand~~  
17    ~~six hundred dollar (\$27,600) amount specified in subdivision (c)~~  
18    ~~of Section 17041, as adjusted for inflation pursuant to subdivision~~  
19    ~~(h) of Section 17041, the tax on capital gains is 2.325 percent, and~~  
20    ~~4.65 percent if taxable income is over that amount.~~

21    ~~(c) This section shall not apply to collectibles gain, as defined~~  
22    ~~by Section 1(h)(6) of the Internal Revenue Code, or to~~  
23    ~~unrecaptured Section 1250 gain, as defined by Section 1(h)(7) of~~  
24    ~~the Internal Revenue Code.~~

25    ~~(d) This section shall remain in effect only until January 1,~~  
26    ~~2004, and as of that date is repealed.~~

27    ~~SEC. 2.—This act provides for a tax levy within the meaning of~~  
28    ~~Article IV of the Constitution and shall go into immediate effect.~~

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30     ~~SECTION 1. (a) The Legislature finds and declares that the~~  
31     ~~current tax structure has led to revenue volatility, with tax receipts~~  
32     ~~growing dramatically during good economic times and~~  
33     ~~plummeting during economic downturns. This volatility results~~  
34     ~~from the dynamic nature of California's economy and the~~  
35     ~~increased reliance on personal income tax revenues. The volatility~~

1 of personal income tax revenues is exacerbated by the increased  
2 dependence on personal income tax revenues attributable to  
3 capital gains and stock options.

4 (b) The Legislature has a strong interest in reducing revenue  
5 volatility. A less volatile revenue structure will help the Legislature  
6 do each of the following:

7 (1) Maintain funding commitments.

8 (2) Reduce long-term costs by reducing duplicative startup  
9 costs.

10 (3) Improve planning.

11 (c) It is the intent of the Legislature to amend the Revenue and  
12 Taxation Code to provide a more stable revenue structure that will  
13 include a reduction in the personal income tax rate on capital  
14 gains, broadening of the state and local sales and use tax base,  
15 reducing both the state and local sales and use tax rate, and  
16 providing that change of ownership for nonresidential property  
17 shall result in reassessment when a cumulative 50 percent of  
18 ownership share changes in ownership.

